

**City of Detroit**  
**Public Lighting Department**  
**Procurement and Inventory Operations**  
**Performance Audit**  
**February 2001**



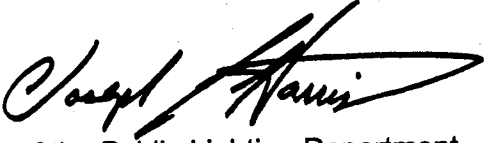
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## MEMORANDUM

DATE: March 9, 2001

TO: Mayor Dennis Archer  
Honorable City Council

FROM: Joseph L. Harris  
Auditor General 

RE: Performance Audit of the Public Lighting Department

Attached for your review is our report on the performance audit of the procurement and inventory operations of the Public Lighting Department (PLD).

This report contains an executive summary; our audit objectives, scope, and methodology; our findings and recommendations; and a Schedule of Contracts Referred to City Council For the Period August 1999 Through December 2000; and an Attachment containing the PLD's responses to our findings and recommendations.

A copy of this report has been provided to the Public Lighting Department.

We appreciate the cooperation and assistance received from the employees of the Public Lighting Department during our audit.

JLH:eb

Attachment

**City of Detroit  
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February 2001**

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**EXECUTIVE SUMMARY**

The Public Lighting Department (PLD) installs and maintains the street lighting system for the City of Detroit, generates electrical power to over 890 public buildings and various customers, and maintains the City's traffic signal system. PLD is a general fund agency that employs 364 people. For fiscal year 2000-2001, PLD has a budget of \$68.6 million in expenditures and \$55.9 million in revenues.

In 1999, the City of Detroit implemented the Detroit Resource Management System (DRMS) enterprise application and PLD discontinued using the Public Lighting Accounting System (PLAS) for inventory purposes. During 2000, PLD began converting the stores inventory to the EMPAC materials management system. This conversion is still in process.

PLD's procurement function initiates purchase requisitions, generates and manages imprest (purchases between \$400 and \$2,000) and emergency purchases, receives goods, records receiving information, and operates warehouses located at the Grinnell and Mistersky locations. This Procurement Performance Audit identifies current PLD purchasing practices and operations, and recommends process and control improvements. Key recommendations identified are:

- **Purchasing Approval Policies and Procedures** – Obtain proper approvals prior to incurring expenses.
- **Inventory management** – Perform a current inventory; maintain daily inventory records; develop clearly defined inventory levels; and conduct periodic inventory counts.
- **Emergency/Imprest Cash Purchases** – Regulate and anticipate inventory needs; utilize the established budgetary and procurement processes for all purchases; and limit emergency purchases to urgent situations.
- **Separation of Duties** – Separate duties relating to vendor selection, ordering, receiving, and paying.
- **Policies and Procedures** – Develop written procedures for PLD; and communicate and distribute to appropriate staff.

Detailed findings and recommendations are outlined on Page 3. Management and staff of the PLD were very cooperative and willingly shared information. We appreciated the courtesy and assistance extended to us during our audit.

## **AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY**

### **Audit Objectives and Scope**

Our review assessed the overall effectiveness of PLD's procurement and inventory operations and the related system of control. We evaluated the risks associated with each process and identified areas where controls and processes could be improved.

### **Audit Methodology**

Our audit was conducted in accordance with generally accepted government auditing standards, as promulgated by the Comptroller General of the United States. This included interviews with employees of the Grinnell and Mistersky sites of PLD, as well as the Purchasing and Accounts Payable Divisions to identify major purchasing processes and procedures. We developed flowcharts, narratives and risk matrices to assist in identifying risks in the PLD procurement process.

## **FINDINGS AND RECOMMENDATIONS**

The recommendations below are designed to improve performance, enhance processes and minimize associated risks.

### **I. Purchasing Approval Policies and Procedures**

#### **Finding**

We noted several instances where invoices from a particular contractor were submitted to reimburse the contractor for payments made to other vendors on behalf of PLD. These arrangements appear to have been made to circumvent the City's procurement policies. PLD management asked the contractor to pay these expenses, and they were subsequently billed to the City on the contractor's invoices.

#### **Recommendation**

We recommend PLD management adhere to prescribed City procurement policies.

#### **Basis for Recommendation**

Vendors should never be asked to pay City expenses at the behest of a City employee. Such requests create a conflict of interest, and suggest an intent to purposely circumvent standard purchasing approval policies and procedures.

### **II. Inventory Records**

#### **Findings**

1. At Mistersky, no inventory records are maintained, and receipts and distributions are routinely performed without being documented. Also, there is unlimited access to the Mistersky storeroom.
2. The prior inventory system (PLAS) was discontinued in the Fall of 1999, and the EMPAC system is in the process of being implemented. For Grinnell, an inventory listing was produced in November 2000. The listing consists of an actual count performed in April 2000 with receipts and distributions being used to update the totals since then.

#### **Recommendations**

1. Mistersky management should implement a temporary system for managing inventory if the EMPAC system will not be utilized in the near future. Management should require all Stores requisitions to be documented, and limit storeroom access to Stores personnel.
2. Grinnell management should take a current count of inventory on hand, compare it to the balance on the EMPAC system, and make the necessary adjusting entries.
3. Management at both sites should perform inventory counts at regular intervals to ensure the EMPAC system remains accurate. Management should emphasize to

staff the importance of maintaining accurate inventory records as a key factor in the successful performance of the Department.

#### **Basis for Recommendations**

Accurate inventory records assist in the control process by tracking item quantities, thereby reducing the risk of stock outages and emergency purchases. Adequate inventories ensure that parts are on hand to service or replace broken equipment.

Limiting storeroom access provides greater control by allowing only authorized staff to remove and distribute inventory items. Limited access also ensures accountability and improves the likelihood of proper documentation of receipts and distributions.

Periodic inventory counts detect inaccuracies and shrinkage.

### **III. Inventory Levels**

#### **Finding**

To lower the risk of theft and reduce the costs of unnecessary inventory, management made a business decision to lower inventory levels on many items and eliminate the inventory on certain readily available items. We found reorder points had either not been established or were outdated.

#### **Recommendation**

Management should establish prudent reorder points based on inventory usage, timing and the availability of goods. For items that are not carried as inventory, management should ensure vendors can provide the necessary items on a timely basis.

#### **Basis for Recommendation**

Failure to properly plan and monitor inventory levels results in stock outages, high volumes of emergency purchases, higher costs, and over reliance on vendors to fulfill urgent stock requests.

### **IV. Emergency/Imprest Cash Purchases**

#### **Findings**

1. Per Department personnel, there are many instances when invoices are received for goods or services prior to issuing purchase orders.
2. The depletion of cable inventory has resulted in numerous emergency cable purchases.
3. The expiration of contracts and purchase orders has contributed to an inordinate number of emergency purchases.

During the period from August, 1999 to December, 2000, about 71% of the dollar amount of contracts and purchase orders PLD referred to City Council were for "emergencies, extensions and change orders." (See attached Schedule.)

### **Recommendations**

Management should:

1. Require purchase orders and only allow emergency purchases when an urgent need exists.
2. Anticipate cable purchases for the coming year and budget accordingly since a twenty-six week lead-time is required. Rather than making emergency purchases, seek budget increases in the event previously budgeted funds prove inadequate.
3. Implement a tickler system to monitor purchase orders and service contracts, to anticipate the expiration date.

### **Basis for Recommendations**

Standard business practices dictate purchases should begin with the issuance of a purchase order, followed by delivery of goods/services, and then invoicing and payment. If goods are routinely received before a purchase order has been issued, a greater risk of impropriety exists, and funds may not be available to pay invoices when they are presented.

Expired purchase orders and service contracts can lead to emergency purchases. Proactive monitoring can ensure purchase orders and contracts are available to support purchases on an ongoing basis.

## **V. Separation of Duties**

### **Findings**

1. We observed the Purchasing Coordinator utilizing the Director's computer password and identification in the performance of her job duties.
2. We were informed the Purchasing Coordinator routinely requests Accounting staff to input receiving information (goods received) to the DRMS system.
3. From time to time, vendor checks have been sent to PLD staff for delivery to vendors.

### **Recommendations**

1. The Purchasing Coordinator should attend DRMS training and be assigned a unique password. This password should provide the appropriate level of access consistent with the Purchasing Coordinator's duties.
2. Accounting staff should discontinue entering receiving information. Stores employees from the Receiving Dock should input all receiving information after verifying receipt of the goods.
3. Checks should be mailed directly to vendors or held at the Paymaster's Office for vendor pick-up (upon identification).



**Basis for Recommendations**

The Director's computer access level is inappropriate or excessive for the Purchasing Coordinator to perform her functions. Unique passwords provide accountability, limit access to only authorized functions, and reduce the risk of impropriety.

When receipt information is entered into the system based upon someone's verbal instruction, there is a risk of paying for goods never received.

Whenever vendor checks are not mailed directly to vendors, the risk of misappropriation of funds is increased.

**VI. Policies and Procedures****Finding**

We observed a general lack of documented operating procedures.

**Recommendation**

Management should develop written procedures for key operations and communicate them to all applicable staff. The procedures should include, but not be limited to, purchasing, receiving, stores and bill paying.

**Basis for Recommendation**

Without documented procedures, the risk is greater that operations will not be conducted consistently and in accordance with management's direction. The quality of service to Department customers may also be adversely affected.

**Public Lighting Department**  
**Schedule of Contracts Referred to City Council**  
**For the Period August 1999 Through December 2000**

ITEM NUMBER	DATE REFERRED	CONTRACT NO.	DESCRIPTION	SUPPLIER	ESTIMATED COST			OVERALL TOTAL
					Emergencies, Extensions, and Change Orders	Contract Renewals	Other (e.g., new contracts)	
1	12/18/00	2540668	300 street lighting standards	Hercules & Hercules			181,875.00	181,875.00
2	12/04/00	2500561	Repair Service for conflict/voltage monitors	Carrier & Gable, Inc.		15,000.00		15,000.00
3	12/04/00	2530403	Amendment to contract 2530403 because page 2 of the original quotation was not reflected in the contract price.	Environmental Systems Corporation	17,100.00			17,100.00
4	11/27/00	2538138	Soda, Caustic, (NaOH or Sodium Hydroxide) liquid, 50% Solution, Rayon grade or better	PVS Nolwood Chemicals, Inc.			5,000.00	5,000.00
5	10/16/00	2536476	15kv Cable	City of Lansing, Michigan Board of Water and Light	101,550.00			101,550.00
6	10/16/00	2536650	Metal Enclosed Bus Duct	T & N Services, Inc.			48,608.00	48,608.00
7	10/09/00	2535184	To upgrade the Waterman Substation	Detroit Edison	1,200,000.00			1,200,000.00
8	09/25/00	2535107	#6 AWG Cable	Rhodes & Associates	41,050.00			41,050.00
9	08/28/00	2529609	35 feet wood poles and #2 hard drawn wire	Reed City Power Line Supply Co.	50,600.00			50,600.00
10	08/28/00	2533366	24kv Cable	Transtech Electric, Inc.	21,276.19			21,276.19
11	08/28/00	2533375	Repair work for the Mistersky Gas Turbine	Westinghouse Process Control, Inc.	13,652.88			13,652.88

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					Emergencies, Extensions, and Change Orders	Contract Renewals	Other (e.g., new contracts)	
12	08/21/00	2532657	Copper bus bar	Rhodes & Associates	4,320.00			4,320.00
13	08/14/00	2529249	#2 AWG Cable	Hercules & Hercules	77,110.00			77,110.00
14	08/14/00	2530403	Maintenance Agreement for the Mistersky Continuous Emission Monitoring System, beginning May 19, 2000 for three years with two renewal options for one year each	Environmental Systems Corporation			70,000.00	70,000.00
15	08/14/00	2532244	Fuse cut-outs, contract is for two years beginning September 1, 2000 with two renewal options for one year each				120,000.00	120,000.00
16	08/07/00	2500191	Secondary Fuses, exercise of first renewal option beginning September 2000 for one year, the contract includes a provision for three renewal options for one year each	Hercules & Hercules		20,000.00		20,000.00
17	07/31/00	2500440	Procelain Insulator from 7/1/00 through 6/30/01.	T&N Services		35,000.00		35,000.00
18	07/31/00	2531705	Street Lighting Brackets.	Hercules & Hercules			40,425.00	40,425.00
19	07/24/00	2506995	Cartage and storage services for electrical and related equipment from 8/1/00 through 7/30/01.	Thomas Goodfellow Inc.			94,425.00	94,425.00
20	07/24/00	2531143	Street Lighting Standards.	Hercules & Hercules			28,390.00	28,390.00
21	07/03/00	2529785	Cable fault indicators from 7/15/00 through 7/14/02.	Hercules & Hercules			2,550.00	2,550.00

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22	06/26/00	2500214	Repair, testing, and maintenance electrical switchgear from 8/1/00 through 7/31/01.	Power Plus Engineering		35,000.00		35,000.00
23	06/26/00	2500554	Genuine Helwig Carbon Motor Brushes from 8/1/00 through 7/31/01.	Car Bee Inc.		3,500.00		3,500.00
24	06/26/00	2500612	Wire, copper, single conductor, from 7/1/00 through 6/30/01.	Rhodes & Associates			172,000.00	172,000.00
25	06/19/00	2504391	Fuel Oil No. 2, distillate, low ash, medium volatility from Jan. 15, 2000 through Jan. 14, 2001.	Waterfront Petroleum Terminal Co.		700,000.00		700,000.00
26	06/12/00	2529041	Payment for 911 and 911 upgrade.	Ameritech	279,902.57			279,902.57
27	05/30/00	2520802	Valve repair service for 90 days not to exceed 7/31/00.	Renew Valve & Machine Co.	30,000.00			30,000.00
28	05/15/00	2527295	Wood utility poles.	T&N Services	47,960.00			47,960.00
29	04/24/00	2526175	Street Lighting Luminaries	Hercules & Hercules	44,887.00			44,887.00
30	04/24/00	2526299	Sodium Vapor Luminaries.	Hercules & Hercules	40,292.00			40,292.00
31	04/24/00	2526308	URD Cable	Rhodes & Associates	47,240.00			47,240.00
32	04/24/00	2526347	Traffic Signal Faces.	Hercules & Hercules			35,600.00	35,600.00
33	04/03/00	2519793	To provide deregulation and utility consulting services.	S.D. Hamilton Group			215,000.00	215,000.00
34	03/27/00	2506995	Cartage, Rigging and Storage Services.	Thomas Goodfellow Inc.	500,000.00			500,000.00
35	03/20/00	2500294	Alley Arm Brace.	T&N Services		3,000.00		3,000.00

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					Emergencies, Extensions, and Change Orders	Contract Renewals	Other (e.g., new contracts)	
36	03/13/00	2500240	Lighting Arrestors.	T&N Services		10,000.00		10,000.00
37	03/13/00	2500564	Wire, Tinned Copper	Williamson- Marshall		10,000.00		10,000.00
38	03/13/00	2504852	Copper Wire #8 AWG & #12 AWG.	Williamson- Marshall		30,000.00		30,000.00
39	03/13/00	2522664	Repair port assemblies and parts for Yarway high pressure color- port gauge.	T&N Services			6,052.50	6,052.50
40	03/13/00	2523846	PVC Moulding	Hercules & Hercules	6,652.80			6,652.80
41	03/13/00	2523854	#2 AWG Cable.	Hercules & Hercules	17,135.00			17,135.00
42	03/06/00	2500228	Repair service, parts and labor, Onan Generators from 4/1/00 through 3/31/01.	Spina Electric		5,000.00		5,000.00
43	03/06/00	2519814	To assist Mistersky personnel in preparation of permit applications and obtain EPA certifications, train employees.	Clayton Environmental Consultants, Inc.	75,000.00			75,000.00
44	02/21/00	2511485	Emergency repair of transformer.	S.D. Myers	21,412.00			21,412.00
45	02/21/00	2521107	Splice kits.	T&N Services			157,000.00	157,000.00
46	02/14/00	2516459	Connectors, parallel groove.	Hercules & Hercules			9,200.00	9,200.00
47	01/31/00	2520964	Feeder arm clamps.	Hercules & Hercules			60,112.50	60,112.50
48	01/24/00	2520795	Cable, #2 AWG.	Rhodes & Associates			30,000.00	30,000.00
49	01/04/00	2519322	Traffic Signal Cabinets.	Hercules & Hercules			370,000.00	370,000.00
50	12/28/99	2519205	Street Lighting Brackets.	Hercules & Hercules	18,125.00			18,125.00

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					Emergencies, Extensions, and Change Orders	Contract Renewals	Other (e.g., new contracts)	
51	12/20/99	2518470	Extermination services from January 1, 2000 through December 31, 2001.	Knock Our Pest Control Service			5,000.00	5,000.00
52	12/14/99	2515764	Caps and Terminals.	T&N Services			94,500.00	94,500.00
53	12/14/99	2517889	Transformers, Current, from December 15, 1999 through December 31, 2002.	Hercules & Hercules			15,678.00	15,678.00
54	12/14/99	2518214	Wire terminals.	T&N Services			77,640.00	77,640.00
55	12/14/99	2518272	To pay vendor for maintenance work performed on PLD's SCADA System.	Control Corporation			20,981.58	20,981.58
56	12/14/99	2518342	Installation of electrical power feed for traffic signal upgrade.	Michigan Department of Transportation	367,000.00			367,000.00
57	11/29/99	104764	Telephone system upgrade for new 911-311 telephone reporting system for Y2K operations.	Ameritech	155,400.00			155,400.00
58	11/29/99	105154	Telecommunications system for 911 and 311 system's contingency plan for Y2K operation.	Ameritech	72,840.00			72,840.00
59	11/29/99	105407	Backup batteries for 911 backup.	Preferred Power, Inc.	21,600.00			21,600.00
60	11/29/99	100192, 105493	Furnish 4 arrow boards, traffic safety, solar powered manufactured by Amida.	Burke Equipment	18,800.00			18,800.00
61	11/15/99	2511485	Emergency repair of transformer.	S.D. Myers	11,865.00			11,865.00
62	11/15/99	2515207	To provide computer consulting and services.	Ultimate Computer Solutions, Inc.			500,000.00	500,000.00

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					Emergencies, Extensions, and Change Orders	Contract Renewals	Other (e.g., new contracts)	
63	11/15/99	2516446	Traffic signal bracket fittings.	Hercules & Hercules			9,403.20	9,403.20
64	11/08/99	2515860	Cable, #4/0 Copper.	Williamson-Marshall			45,400.00	45,400.00
65	11/08/99	2515953	Cross arms.	Hercules & Hercules			70,410.00	70,410.00
66	11/08/99	2516246	Cable, URD #2 Copper Conductor.	Hercules & Hercules			26,263.00	26,263.00
67	11/01/99	2515734	Conflict voltage monitors.	Hercules & Hercules	15,512.50			15,512.50
68	10/18/99	2500527	Full service maintenance, fire protection system from 10/1/99 through 9/30/00.	Detroit Fire Extinguisher Co.		20,000.00		20,000.00
69	10/11/99	2500375	Instrumentation and control parts and repair service from 10/31/99 through 10/30/00.	Coritech Services		165,000.00		165,000.00
70	10/04/99	2512902	Lawn sprinkler system.	Agar Lawn Sprinkler Systems, Inc.			27,990.00	27,990.00
71	09/27/99	2500914	Power plant repairs and modifications.	Stone & Webster Corp.	880,561.00			880,561.00
72	09/27/99	2511030	To change order one for the upgrading of street lighting surrounding the facility.	Focus Hope	58,913.00			58,913.00
73	09/27/99	2513371	Transformer.	Hercules & Hercules			199,420.00	199,420.00
74	08/30/99	2511316	Natural gas.	Enserch Gas Marketing, Inc.	5,227,149.90			5,227,149.90

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					Emergencies, Extensions, and Change Orders	Contract Renewals	Other (e.g., new contracts)	
75	08/23/99	2500214	Testing and maintenance of electrical switchgear from 8/1/99 through 7/31/00.	Power Plus Engineering, Inc.		35,000.00		35,000.00
76	08/23/99	2500375	To increase contract amount to cover increased usage due to a greater number of emergency repairs to Mistersky Power Plant's instrument and control systems.	Coritech Services	675,000.00			675,000.00
77	08/23/99	2511485	Transformer repair service.	S.D. Myers	58,663.00			58,663.00
78	08/16/99	2510864	Dump Trucks	Jefferson Chevrolet Co.			159,126.00	159,126.00
79	08/16/99	2511186	Pot Heads.	Hercules & Hercules			84,242.50	84,242.50
Totals					\$10,218,569.84	\$1,086,500.00	\$2,982,292.28	\$14,287,362.12

Percentage of Overall Total (\$)	71.5%	7.6%	20.9%	100.0%
Number of items	33	14	32	79

**SOURCES:** City Council Research and Analysis Division memorandums and Finance Department Purchasing Division memorandums to City Council for the period August 1999 through July 2000.





Mark Petty  
Director  
Public Lighting Department  
City Of Detroit

**ATTACHMENT**

9449 Grinnell  
Detroit, Michigan 48213  
Phone 313-267-7260

To: Joseph Harris  
Auditor General

From: Mark Petty  
Director, Public Lighting Department

Re: Public Lighting Department Response to Auditor General Procurement Process Findings  
and Recommendations

Date: February 23, 2001

The following outlines the Public Lighting Department's response to the Auditor General procurement process findings and recommendations

**I. Purchasing Approval Policies and Procedures**

**Finding**

Instances where invoices from Consulting Engineering Associates, Inc. (CEA) were submitted to reimburse CEA for payments made by CEA to other vendors on behalf of PLD.

**Departmental Response**

This practice of paying CEA for payments made by CEA to other vendors on behalf of PLD was not instituted to circumvent the City's procurement policies. This practice was consistent with past practices that were performed by the department in its broad interpretation of the scope of services of the contract prior to approximately June '99. It is the understanding of the department that such arrangements were consistent with past practices that were deemed acceptable by previous audits dating back prior to the early 90's. Subcontractual services for data entry, computer services, surveying, pole manufacturing site visits, and advances on budget department approved services and equipment were all examples of instances where invoices from CEA were submitted to reimburse CEA for payments made by CEA to other vendors on behalf of PLD. Authorization to proceed could only be submitted to CEA by PLD individuals that had the appropriate signature authorization. The subcontractual service and equipment rates were established by bids performed by CEA in accordance with standard purchasing policies and procedures. The current PLD management's more narrow interpretation of the scope of services discontinued such practices after June '99. The current management's position, adopted in June '99, has been to limit the scope of services of the contract to include only drafting services performed by the prime contractor, CEA. Authorization to proceed on those drafting assignments can only be submitted by PLD individuals with the appropriate signature authorization. The department believes that this current position adheres with prescribed City procurement policies.

Dennis W. Archer, Mayor

## **II. Inventory Records**

### **Finding**

1. At Mistersky, no inventory records are maintained, and receipts and distributions are routinely performed without being documented. Also, there is unlimited access to the Mistersky storeroom.
2. The prior inventory system (PLAS) was discontinued in the Fall of 1999, and the EMPAC system is in the process of being implemented. For Grinnell, an inventory listing was produced in November 2000. The listing consists of an actual count performed in April 2000 with receipts and distributions being used to update the totals since then.

### **Departmental Response**

The reference to no records being kept at Mistersky merely refers to the updating of individual on hand quantities or individual part balances after material is received or issued from the warehouse. Records of all material received and issued from the Mistersky warehouse are maintained and can be retrieved manually. This information is used for payment processing and individual part balance updating. Mistersky staff is currently being directed to label all bins and shelves, identify all material, and maintain a manual index card for each individual item as part of their performance evaluation criteria. Each card will contain that item's balance, average price, and last purchase order data. These cards will then be updated with receipt of material and internal requisition data to maintain an ongoing balance of that material until the migration to the EMPAC system is completed. Simultaneously, all part master records with this average price and last purchase order data will be loaded into the EMPAC system. Mistersky staff will then conduct another physical count to verify balances and transactions for each individual part, and will then migrate to the EMPAC system in late April.

Access to the Mistersky stores facility has been restricted to the stores personnel by directive since August 12, 1994. This restriction was reiterated in January 2001. Non-stores personnel requiring access to that facility can do so only via escort by stores personnel. In instances where stores personnel are not on duty, stores individuals will be called in to distribute material.

Grinnell stores facilities migrated to the EMPAC system in November 2000 with a physical count performed in April 2000. Receipts and distributions have been fully entered into the system to maintain on hand balances of each individual item. A physical count will be performed this spring to perform the annual reconciliation of the on hand balances.

It should be noted that has been and will continue to be PLD's practice to perform annual counts to verify on hand quantities and balances. This is a practice that is mandated by finance directive. In addition, this practice is emphasized by the inclusion of such activities in the performance evaluation criteria of all stores personnel.

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### **III Inventory Levels**

#### **Finding**

To lower the risk of theft and reduce the costs of unnecessary inventory, management made a business decision to lower inventor levels on many items and eliminate the inventory on certain readily available items. We found reorder points had either not been established or were outdated.

#### **Departmental Response**

The department is transitioning to a "just in time" acquisition of inventory items to reduce the risk of theft and reduce the costs of unnecessary inventory. In addition, the modernization of the street lighting system has reduced or eliminated the necessity for some items. Simultaneously, the department has converted its inventory system from the legacy B1900 system to the EMPAC system. During the final stages of that transition, reorder point and reorder quantities for each item were printed out and maintained. In addition, the essential and non-essential list for materials was printed out and maintained. The new EMPAC system will calculate reorder point and reorder quantities automatically. These newly calculated quantities will be available at the Grinnell site in April 2001 and at the Mistersky site in April 2002. In addition, essential and non-essential parts lists will be maintained at each facility, just as it was in the past. Performance evaluation criteria for stores personnel will require essential and non-essential lists annual review, reorder point and reorder quantity annual recalculation, and essential and non-essential inventory on hand quantities and ordering status monthly reporting.

### **IV Emergency/Imprest Cash Purchases**

1. Per Department personnel, there are many instances when invoices are received for goods or services prior to issuing purchase orders.
2. The depletion of cable inventory has resulted in numerous emergency cable purchases.
3. The expiration of contracts and purchase orders has contributed to an inordinate number of emergency purchases.

Typically, with some skilled trade services or goods associated with weight or lot, it is difficult to have exact estimates of the services to be performed or goods that are to be received. Services may have slight overages or balances, depending on the circumstances confronted when the services are actually performed or the goods are actually delivered. Initially, it was the policy of the accounting division at Public Lighting to generate the purchase order after the invoice was received. This assured that the invoice could be paid and the excessive dollars were not encumbered. During the onset of the DRMS implementation, if an invoice exceeded a PO amount, it could not be paid. If, on the other hand, an invoice was less than the PO amount, the remaining balance would remain encumbered and not be available for use by the department. PLD policy now requires Po's to be generated prior to the receipt of any goods or services. In addition, PLD is working with the Finance Department to require that invoices do not exceed PO amounts.

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Much of the high voltage cable the department purchases has encountered long twenty-six week lead times recently due to other utility modernization programs. Cable failures, on the other hand, have been unpredictable and have been dependent on weather related conditions. The department has encountered some increased cable failure rates in recent months while waiting for previously ordered cable. As a result, emergency purchases of cable have resulted. The department has and continues to budget with three-year average failure rates to make sure that adequate cable purchases can be made.

During the transition to the DRMS system, purchase order data entry had to be performed from the old legacy system to the new system. Unfortunately, due to the labor intensive nature of the task, all the existing purchase orders were not reentered into the new system and existing purchase orders expired before new purchase orders could be generate. Currently, as part of the evaluation criteria for stores personnel, tickler files and directories of purchase orders are now being created. Grinnell has already manually created such a directory and Misterky is currently in the process of creating such a file. In addition, assistance from the purchasing department is being requested to electronically generate such a file. These directories, along with the last PO information associated with the on hand quantities in the inventory system, will dramatically improve the department's ability to be proactive and plan for PO expiration and lead times of materials.

Emergency situations should be avoided whenever possible. In the event an emergency situation may arise, consultation with the purchasing department is required before such a designation can be made. It is only after this consultation and consent of the purchasing department that an emergency can be declared.

The department is officially requesting a standard report to show emergencies, extensions, change orders, renewals, and other contract activity. This report will enable the purchasing activity to be monitored on a monthly basis.

## **V Separation of Duties**

### **Findings**

1. We observed the Purchasing Coordinator utilizing the Director's computer password and identification in the performance of her job duties.
2. We were informed that the Purchasing Coordinator routinely requests Accounting staff to input receiving information (goods received) to the DRMS system.
3. From time to time, vendor checks have been sent to PLD staff for delivery to vendors.

### **Departmental Response**

Although the purchasing coordinator utilizes the director's password, the transactions performed have been previously authorized in writing by the director via the department requisition forms. In addition, this form of automated authorization is not unlike having alternate individuals available with authorized signature capabilities. Even in the manual system previous to the DRMS implementation, alternate individuals had signature authorization to account for continued transaction processing in the absence of individuals. The department recognizes the need for the appropriate electronic audit

capabilities and has enlisted the help of the Finance department to provide unique password for the purchasing coordinator.

Whether or not it can be substantiated or proven that accounting staff were being routinely requested to enter receiving information, the practice will be prohibited. Accounting staff, working for the head accountant, should take direction from the chain of command within accounting and not from any other outside individuals. Likewise, the practice of personnel other than personnel at the dock entering receiving reports is prohibited.

From time to time, vendors, requiring payment prior to the release of vehicles that have been repaired, or other goods and services have required checks to be delivered on site. In an effort to continue operations and deliver services, some PLD employees have volunteered to deliver checks to pick up their vehicles. That practice will be discontinued to eliminate the risk of misappropriation of funds.

## **VI Policies and Procedures**

### **Finding**

We observed a general lack of documented operating procedures.

### **Departmental Response**

Although many individuals have undergone extensive training on the procedures of DRMS and attended numerous internal meetings at the department to document their roles, responsibilities, processes, and practices, the department recognizes a need for improvement. A significant improvement in the communication of the process and procedures associated with the department would be achieved if new, automated, centralized documentation can be developed and disseminated. To that end, the department will develop an internal goal based governance document that is specific to the Public Lighting procurement process. In addition, the department will work with the purchasing, accounts payable, and DWSD department to produce an electronic document that outlines purchasing, receiving, stores, and bill paying processes. It is anticipated that such a document can be completed by the end of April. This type of document will be used as a reference for current employees and as a training tool for new employees. In addition, with annual review of this document, the policies and practices of the department will be maintained as changes occur to personnel.

The department looks forward to making many of these process improvements to its procurement system. The department is grateful for the resources that were made available to conduct interviews and assist in the analysis and recommendations for improving the system. The rewards associated with these improvements to the Public Lighting Department's system are sure to benefit the employees, vendors, and citizens of Detroit.

Dennis W. Archer, Mayor